VILLAGE OF
LINCOLNSHIRE

To: Lincolnshire Residents, Mayor Brandt, and Village Board of Trustees

From: Brad Burke, Village Manager
Matt Rossi, Finance Director

Date: January 1, 2024

Subject: Budget Transmittal Letter – Fiscal Year 2024 Budget Highlights

On behalf of the Village staff and management team, we are pleased to submit the Village of Lincolnshire's Fiscal Year 2024 (FY 2024) Budget. The Budget covers the Village's fiscal year period from January 1 through December 31, 2024.

Historically, the Village Board and staff work diligently and cooperatively to maintain and, when possible, enhance municipal services provided to Lincolnshire residents, businesses, and community organizations. As the world continues to rebound from the COVID-19 pandemic, Village staff took into consideration the current economic situation facing the Village for the FY 2024 Budget, how it has impacted the past four fiscal years, and how it may impact Village finances in future years.

Economic Uncertainty, Revenue Projections, and Long-Term Financial Planning

In FY 2023 most revenue sources have rebounded to pre-pandemic (FY 2019) levels. During the course of the pandemic, key Village revenues witnessed a cumulative $7 million decline. This decline can largely be attributed to Lincolnshire's reliance on several industries most directly impacted by pandemic area restrictions and changes in consumer behavior. The restaurant and travel industry bore the brunt of COVID-19 area impacts, and the Village saw a direct correlation in significantly reduced Sales Tax, Food & Beverage Tax, Room Tax, and Admission Tax revenues throughout fiscal years 2020, 2021, and 2022. Staff continue to carefully monitor and evaluate the Village's financial condition especially as it relates to key revenues. In general, the approved budget for FY 2024 reflects continued limited growth in many major tax revenue line items. Although this is a positive sign, the decreased revenue from FY 2020 through FY 2022 took a major toll on the Village's financial position and ability to finance long-term capital needed identified in Lincolnshire's 10-Year Capital Improvement Plan.

The chart below provides a comparison of key revenues to budgeted expectations and reflects a comparison to those same revenues for fiscal years 2019 through 2023 as of September 2023.

Description	2019 Actual YTD	2020 Actual YTD	2021 Actual YTD	2022 Actual YTD	2023 Actual YTD	% of 2023 YTD to Budget	% of Months into Fiscal Year	Reporting Available Thru
State Income Tax	615,947	620,888	768,626	1,031,744	954,500	87%	75%	September
Sales Tax	995,482	666,642	854,389	1,120,410	1,141,287	60%	58%	July
Local Home Rule Sales Tax	903,372	581,674	736,557	991,894	1,012,559	60%	58%	July
Food & Beverage Tax	470,579	262,483	335,675	449,701	451,289	63%	67%	August
Utility Tax	910,876	789,766	819,830	902,023	805,748	66%	67%	August
Telecommunications Tax	596,637	579,558	619,520	559,181	555,585	63%	58%	July
Room Tax	1,229,607	419,115	535,744	963,360	1,159,731	77%	67%	August
Admission Tax	168,178	49,103	12,903	119,495	63,502	29%	67%	August
Real Estate Transfer Tax	266,892	435,132	374,655	712,459	298,176	92%	75%	September
Total	**6,157,570**	**4,404,361**	**5,057,899**	**6,850,267**	**6,442,377**			

The table below presents the FY 2024 budget with historical data for the general fund key revenues.

Description	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Budget	2023 Projection	2024 Budget	% Difference from 2019 to 2024 Budget
State Income Tax	780,560	801,125	997,096	1,303,788	1,100,000	1,200,000	1,275,000	163%
Sales Tax	1,887,394	1,242,258	1,659,690	2,022,181	1,900,000	2,050,000	2,075,000	110%
Local Home Rule Sales Tax	1,688,409	1,089,128	1,452,944	1,801,568	1,700,000	1,850,000	1,875,000	111%
Food & Beverage Tax	716,413	386,639	540,745	684,528	715,000	650,000	650,000	91%
Utility Tax	1,271,929	1,150,148	1,177,706	1,257,611	1,220,000	1,115,000	1,125,000	88%
Telecommunications Tax	1,037,637	953,407	1,027,171	910,389	880,000	775,000	730,000	70%
Room Tax	1,808,446	531,019	911,748	1,510,568	1,500,000	1,575,000	1,750,000	97%
Admission Tax	268,471	50,862	66,577	178,891	220,000	80,000	70,000	26%
Real Estate Transfer Tax	340,446	495,247	457,539	1,005,721	325,000	375,000	350000	103%
Total	**9,799,705**	**6,699,833**	**8,291,216**	**10,675,245**	**9,560,000**	**9,670,000**	**9,900,000**	**101%**

Annually, staff updates Lincolnshire's 5-Year Financial Forecast and 10-Year Capital Improvement Plan. Looking at the current fiscal challenges over a longer time horizon provides a better understanding of the financial need to maintain the high-level of service expected and also meet the community's capital needs. In July of this year, staff updated the 5-Year Financial Forecast and presented the analysis to the Village Board.

The key take-aways from work on the 5-Year Financial Forecast:

- The Village will **meet its Fund Balance Policy** of maintaining 75% of one year's General Fund operating expenses in reserve for FY 2024

- General Fund operating revenues for FY 2023 are expected to be $575,000 greater than budgeted and to exceed projected FY 2023 General Fund expenditures.

- General Fund operating revenues are projected to exceed General Fund operating expenses in each of the five succeeding fiscal years.

- The historical loss in revenue from the COVID pandemic (more than $7 million over 3 years) impacts the Village's ability to fund planned capital and equipment purchases identified in the 10-Year Capital Plan but should not hinder ability to deliver core service.

As always, Village staff takes a very conservative approach when developing the annual budget. The budget reflects the following staffing/personnel changes:

- The Lincolnshire Police Department has an authorized patrol staffing level of 25. The FY 2024 Budget reflects pursuing recruitment efforts to staff at this level to meet operational needs, maintain adequate staffing due to unplanned leaves (FMLA and injury-related), and plan for anticipated retirements in coming years;

  The Public Works Department completed a comprehensive review of their organization structure and implemented multiple changes in 2023. The structure did not result in the addition of any personnel. The main revisions were to titles, duties, and supervisory structure within the department. The restructure allows for effective communication, accountability, and growth in the Public Works department and provides upper management the opportunity to better mentor and guide first line leaders in daily operations, assist with professional relationships, and provide educational and development opportunities to encourage growth.

- Continue to provide public swimming opportunities without lifeguards at Spring Lake Park during the summer season; and

- The authorized full-time equivalent staffing for the organization will remain at 61.50 in FY 2024. No new positions are being added or eliminated during the fiscal year. Since 2012, the Village's FTE reduced from 72 to 61.50 (14.6%).

The Mayor and Board of Trustees adhere to a formal policy of maintaining at least 75% of General Fund operating expenses in reserve (excluding transfers and debt service). Reserves at this level are intended to ensure the Village has time to respond to a significant economic event such as the loss of top sales tax generators. The FY 2024 Budget reflects near flat year-over-year expenditures in many line items. The FY 2024 Budget also demonstrates a continued commitment to addressing Village infrastructure needs and not deferring much-needed investments to future years. General Fund revenue forecasts for FY 2023 are projected to come in slightly lower than 2019 pre-pandemic levels. Although general fund revenue is trending in the right direction, the total loss over the course of Fiscal Years 2020, 2021, 2022, and 2023 are expected to total over $7 million over the four-year period. For the FY 2024 Budget, staff projects Room Tax to be just 3% less than pre-pandemic (2019) levels.

Staff worked to create a budget reflective of community goals, objectives, and service expectations. The budget is also developed to be responsive to changing fiscal pressures and economic impacts. The FY 2024 Budget, prepared by the management team, reflects staff's commitment to working cooperatively with the Village Board to implement strategies to maintain Lincolnshire's positive financial condition while providing excellent services to residents. The budget reflects a commitment to maintaining high services levels.

BUDGET FORMAT

The FY 2024 Budget maintains a strategic approach to the total number of detailed expenditure line items to provide accountability and improved accuracy in budgeting. The additional detail improves management's ability to monitor expenditures/projects throughout the year.

The budget is broken down into several sections via dividers. The dividers separate the budget into different subject areas including organizational information; a summary of the Village's financial status; breakdown of expenses by operational division:

- General Fund (01-Fund)
- General Capital Fund budget (51-Fund)
- Water and Sewer Fund
    - Water & Sewer Administration (02-01)
    - Water & Sewer Operations (02-02)
    - Water & Sewer Improvements (07-01)
- Sanitary Sewer Fund
    - Sanitary Sewer Operations (44-01)
    - Sanitary Sewer Improvement (49-01)
- Other Funds
    - Motor Fuel Tax (03-01)
    - Police Pension (05-01)
    - Fraud, Alcohol, and Drug Enforcement (11-05)
    - Vehicle Maintenance (12-01)
    - E911 (17-01)
    - Park Development (18-01)
    - Special Service Area (SSA) Sedgebrook (20-01)

Major changes to the budget format for Fiscal Year 2024 include the creation of the following funds:

- E911 Fund (Fund 17-01)

BUDGET HIGHLIGHTS

The Fiscal Year 2024 Budget meets the following objectives.

- The FY 2024 Budget **maintains the Village's General Fund unrestricted fund balance** at the reserve fund policy of 75% of operating expenditures.

- Excess reserves maintained above the fund balance requirements are directed to fund future capital projects as outlined in the approved 10-Year Capital Plan. Excess reserves above the 75% minimum General Fund Balance are allocated to the General Capital Fund and Water & Sewer Improvement Fund to pay for needed capital projects/equipment.

- The FY 2024 Budget reflects a recommended **transfer** from the **General Capital Fund to** the **General Fund ($1,750,000)** to maintain 75% fund balance in the General Fund.

- The FY 2024 Budget reflects the **transfer** of General Operating Fund **existing reserves** to the Water & Sewer Improvement Fund (**$2,400,000**) to cover the cost of capital improvements planned in 2024. The budget continues the Village's historical approach to funding needed capital expenses from accumulated reserves.

- The FY 2024 Budget reflects debt service payments related to the Sedgebrook Special Service Area and the series 2022 general obligation bonds associated to storm sewer projects.

- Capital expenditures planned for FY 2024 are a result of projects identified as part of the annual update to Lincolnshire's 10-Year Capital Plan. The annual update was approved by the Village Board on July 24, 2023. A copy of the approved plan can be found in the Capital Improvement Program divider for reference to spending on projects in outlying years.

- The FY 2024 Budget proposes $2,365,300 in General Capital Fund expenditures for critical equipment, infrastructures, and facilities improvements, including the following:

- **Facilities**
  - Village Hall HVAC A/C Compressor/Refrigerant Replacement ($380,000)
  - Public Works UST Removal & Replacement ($60,000)
  - Refinish PW Shop Floor and Replace Trench Drain ($235,000)

- **Equipment**
  - Tow Behind Blower ($15,000)
  - Towable Message Board ($35,000)

- **Furniture & Fixtures**

- **Parks (Funded via Transfer from Park Development Fund to General Capital Fund)**
  - Annual forestry activities related to tree replacement ($50,000) – via Tree Bank Funds
  - Annual contractual services for bridge inspections ($10,000)
  - North Park Garbage Can Replacement ($15,000)
  - North Park Pickleball Court Conversion ($15,000)
  - Spring Lake Bridge Replacement ($250,000)
  - Spring Lake Park Garbage Can Replacement ($15,000)

- **Park Development Fund –** FY 2023 saw minimal contributions to the Park Development Fund due to a decrease in new residential development. The Park Development Fund budget for 2024 reflects a $357,000 transfer to the General Capital Fund to offset the cost of various park and path projects planned for 2024 as noted above.

- **Roadways**
  - Street signpost replacement ($7,500)
  - Road Resurfacing on Brunswick, Windsor, & Canterbury (and others coinciding with Windsor storm sewer project) ($710,000)

- **Vehicles**
  - Replace one ton Flatbed ($95,000)
  - Replace and outfit three Police vehicles ($190,800)
  - Replace Large Dump Truck ($250,000)
  - Replace Body on Dump Truck ($30,000)

- **Property Tax:** The Fiscal Year 2024 Budget reflects a property tax rate increase from 0.25 to 0.32. Property tax is levied to fund Lincolnshire's general pension obligations and police protection expenses. The amount levied for collection in FY 2024 is expected to increase $558,806 compared to budget for FY 2023. The Village has held its tax levy rate flat at 0.25 for 3 straight years (2020-2022). Prior to that, the Village held its rate flat at 0.241 from 2012-2019. The Village's portion of the total property tax bill is less than 3% of the total property tax bill. The actual tax rate is expected to be at 0.32, which allows Lincolnshire to maintain the lowest municipal property tax levy of the 34 Lake County municipalities with a population greater than 5,000. Assuming a $750,000 home value, a homeowner can anticipate a $171.00 (0.8%) increase in property taxes for the coming year. Raising the property tax rate allows the Village to take increase the amount of revenue from an inelastic revenue source, much less subject to economic crisis, while still having minimal impact on residents.

- **Hotel & Motel Room Tax:** The Fiscal Year 2024 Budget includes a recommended increase on the hotel tax rate from 5% to 6% effective July 1, 2024. A study of hotel tax rates of surrounding and comparable communities finds Lincolnshire's hotel tax rate below the average of 6%. In order for this change to go into effect, the Village Board must approve a change to the Village code to increase the rate. The increase will result in an annual increase of $150,000 to general fund revenue for the final 6 months of 2024, and an additional $300,000 in revenue in future years.

- **Budget Officer System:** In September 2023, the Village Board approved an amendment to the Lincolnshire Village Code modifying the way legal spending authority for the fiscal year is approved. Lincolnshire historically operated under the appropriation ordinance system where an ordinance was passed setting legal spending authority in the 1st quarter of the fiscal year. The amendment to the Village Code removed the appropriation ordinance system and created the Budget Officer System. This change results in the approved budget document setting the legal spending authority for the Village. Prior to the code amendment, staff and the Village Board made all financial and management decisions based on the approved budget. The appropriation ordinance had little effect on expenditure or management decisions throughout the fiscal year. The Budget Officer System also eliminates the cumbersome process of preparing the appropriation ordinance which simply reflects information already presented to the Village Board in the form of the budget document.

- **Allocation of Insurance Benefit Expenses:** The Fiscal Year 2024 Budget reflects expenses associated with health, dental, and life insurance being allocated to each operating department. In previous fiscal years, these costs were combined into the Insurance and Common section of the budget. Moving these expenses to the applicable department allows staff to identify total operating cost more easily for each department and increases transparency in reporting departmental expenses.

FINANCIAL SUMMARY

GENERAL FUND

The **General Fund estimated fund balance** is projected to total $8,460,687 at the conclusion of FY 2024. This represents a 75% projected reserve balance of annual operating expenses as of December 31, 2024, which **meets the Village's reserve fund policy**. Any funds more than the General Fund reserve policy are transferred to the General Capital Fund or Water & Sewer Improvement Fund for use towards capital equipment purchases or infrastructure.

Total **General Fund expenditures** are contemplated to be $13,429,932. This compares to budgeted General Fund expenditures projected for Fiscal Year-End 2023 in the amount of $13,650,822. The budget reflects a possible merit increase for all non-union personnel ranging from 0% to a maximum of 3.5%, as well as possible merit bonus for those non-union employees at the top of the salary range. The Village's lone union, Fraternal Order of Police, executed a collective bargaining agreement set to expire in 2025. The agreement calls for an annual wage increase of 2.75% for all members over the four years of the agreement.

The following is a summary of General Fund budget expenditures across all operating areas. The General Fund budget is expected to close FY 2024 with a surplus of $423,811.

	Revenue	Expense	Over (Under)
General Fund			
Revenue	13,853,743		
Administration		627,865	
Finance		439,225	
Police		5,743,881	
Community & Economic Dev.		1,310,143	
Insurance & common		950,716	
PW Administration		342,920	
PW Streets		1,377,160	
PW Parks & Open Spaces		1,604,100	
Buildings & Grounds		193,922	
Total Operating	**13,853,743**	**12,589,932**	**1,263,811**
Transfer In (From Gen Cap)	2,000,000		
Transfers Out		2,840,000	
Total General Fund	**15,853,743**	**15,429,932**	**423,811**

WATER AND SEWER FUND

Revenues are based upon a five-year average of water sales (360 million gallons). The Fiscal Year 2024 budget provides for a 10.0% increase in the combined fee for water and sanitary sewer service charged to utility customers served by the Village's water and sewer system. The fee increase is driven by the Village's water provider (City of Highland Park) increasing the wholesale charge for water purchased by the Village 9.5%. The City of Highland Park indicates rate increases planned for the next four years to be: 2025 (6.5%), 2026-2028 (6.5%). In response to the increases indicated by Highland Park over the next two years, staff recommend a 10% increase to the combined rate to cover operating expenses in FY 2024.

In addition to the increased costs to purchase water, Lake County has provided notice to the Village of a planned 3.0% increase for sanitary sewer processing services as of January 1, 2024. The FY 2024 Budget reflects combined residential water and sewer rate with an increase from $15.42 to $16.96 ($1.54 per 1,000 gallons or a combined 10.0%).

The following chart is a summary of the Water & Sewer Fund budget for FY 2024. Water & Sewer Fund Administrative costs are to decrease 0.8%. Water & Sewer Operating costs are to increase 6.6% for FY 2023. The increase is largely due to the rate increase from Highland Park. The fund is expected to close FY 2022 with a deficit of $3,979.

The FY 2024 Budget **meets** the Village's **fund balance policy** for the Enterprise Fund. For the Water and Sewer Fund at the beginning of FY 2024, the **unrestricted net position** is projected to be $1,450,864, Based upon the FY 2024 Budget, the December 31, 2024, projected unrestricted net position is expected to be $1,239,719 or 20% of annual operating expenses in the fund. The policy is to maintain 20% or at least two months in reserve.

Water & Sewer Operating Fund	**Revenue**	**Expense**	**Over (Under)**
Revenue	5,805,500		
Administration		588,991	
Operations		5,127,654	
Total Operating	**5,805,500**	**5,716,645**	**88,855**
Transfer In			
Transfers Out		300,000	
Total Water Sewer Fund	**5,805,500**	**6,016,645**	**(211,145)**

WATER AND SEWER IMPROVEMENT FUND

Staff projects $50,000 in direct revenues from connection fees in Fiscal Year 2024. This amount represents connection fees due to new construction. Connection fees related to pending commercial developments yet to receive Village Board approval or begin construction are not reflected as revenues for 2024.

Water and Sewer capital improvements total $2,626,250. Most of these expenditures are related to:

- Watermain Replacement – Same location as storm sewer capital project ($550,000)
- Lift Station Rehabilitation ($740,000)
- Watermain Replacement Design Engineering ($30,000)
- Watermain Upsizing ($500,000)
- Sanitary Sewer Lining ($300,000)
- Sanitary Interceptor Lining ($120,000)

OTHER FUNDS

The FY 2024 Budget reflects $0 in funds to be used from **Motor Fuel Tax Fund**. The Village practice is to build up a fund balance for multiple years and use available funds for a single year's road project. **Motor Fuel Tax** revenues are based upon Lincolnshire's population and estimated future per capita revenue provided by the Illinois Municipal League.

The **Police Pension Fund** reflects a 2024 contribution of $829,320. Funds for the Police Pension Fund contribution come from the Village's annual property tax levy. An actuarial analysis is conducted annually to provide the Village with a recommended contribution amount. The Village voluntarily contributed an amount greater than the actuarial recommendation in FY 2023 due to a major decrease in the portfolio value from investment losses in 2022. The contribution amount reflected in the FY 2024 budget matches the actuary recommended amount and is 30% less than the amount levied in 2023.

The **Park Development Fund** reflects revenues received in the form of developer donations for new residential developments. In 2023, the Village is projected to receive $33,179 in park donations for the new homes constructed in the Manors of Whytegate subdivision. The Village is restricted in the types of expenditures using Park Development funds. The 2024 Budget does not contemplate park donation revenue due to the completion of the Manors of Whytegate subdivision and no other large-scale residential developments anticipated. The Park Development Fund budget reflects a transfer in the amount of $357,000 to the General Capital Fund to pay for various park and path projects planned for 2024.

The budget for **Sedgebrook Special Service Area** reflects the property tax levy assessed for the Sedgebrook Retirement community and Camberley Club townhomes to pay for public improvements required as part of these developments. The Village receives the property taxes for this annual special service area and uses the tax proceeds to pay related principal and interest on the bonds when they come due during the fiscal year.

The budget for the **E911 Fund** reflects emergency telephone surcharge revenue anticipated for FY 2024 as well as expenditures related to dispatch services provided by the Village of Deerfield. Other expenditures contemplated in the E911 Fund are related to equipment purchases for radio upgrades that may occur depending upon available technology and staff needs analysis.

ACKNOWLEDGEMENTS

The process of developing the Village of Lincolnshire Fiscal Year 2024 Budget is the annual opportunity for staff and officials to contemplate the Village's past, present, and future. The annual budget is a critical document for the Village as it defines all we do as an organization; serves as a statement of the organization's values; demonstrates the Village's capabilities; and provides a guide to what we hope to achieve.

The presentation of this budget document would not be possible without the support, coordination, and ability of the Village's Department Managers. We are grateful for the time each Department Manager dedicated to the budget process and worked to refine financial forecasts during this especially difficult economic time. Special appreciation is extended to Finance Director Matt Rossi for efforts in assisting with developing the budget, this presentation, and for work on various financial models and forecasts in response to the economic crisis. Additionally, Administrative Assistant Leslie Cole, Administrative Assistant Rebekah Fontane, Management Analyst Yates McLaughlin, and Assistant Village Manager/Community and Economic Development Director Ben Roesler are thanked for their assistance in editing and proofreading the narrative portions of the budget document and assembly. Without each of these staff members' commitment, this document would not have become a reality.

Lastly, I would like to express my sincere gratitude to the Mayor and Village Board of Trustees. All members of the management team benefit from your collective guidance, support, and confidence. If you have any questions or comments regarding this budget, please contact me.

Respectfully submitted,

Bradly J. Burke
Village Manager

Matt Rossi
Finance Director